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Office of the Legislative Auditor

State of Montana

March 1990

Report to the Legislature

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

STATE DOCUMENTS COLLECTION

JUN 15 1990

Montana State Library Commission

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

This report contains recommendations for improving compliance and management controls. These recommendations address:

- ▶ Properly classifying federal financial assistance activity.
- ▶ Recording operating plans and any subsequent amendments on the accounting records.

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1515 E. 6th AVE.
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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STATE OF MONTANA

Office of the Legislative Auditor

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SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

March 1990

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Library Commission's financial activity for fiscal years 1987-88 and 1988-89. The report contains recommendations concerning compliance with state and federal laws and regulations.

The agency's written response to the audit recommendations is included in the back of the audit report. We thank the State Librarian and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor
Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1989

**Montana State Library
Commission**

Members of the audit staff involved in this audit were Wayne Kedish, Vickie Rauser, Tori Hunthausen, and Charles Nemec.

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Appointed and Administrative Officials

State Library Commission

| | | | <u>Term Expires</u> |
|-------------------------------|-----------------------|--|-------------------------|
| Mary Hudspeth, Chairperson | Libby | | May 1991 |
| C.E. Abramson | Missoula | | May 1991 |
| Ruth Patrick* | Missoula | | March 1992 |
| Nancy Keenan** | Helena | | January 1993 |
| Mary Doggett | White Sulphur Springs | | May 1992 |
| Marie Thompson | Billings | | May 1990 |
| Dr. Henry McClernan | Butte | | May 1990 |

* Appointed by the Commissioner of Higher Education from the Montana University System

** Superintendent of Public Instruction or designee

Administration

| | |
|------------------------|-----------------|
| Richard T. Miller, Jr. | State Librarian |
| Jacki Wrigg | Accountant |

Summary of Recommendations

The following is a listing of recommendations from our financial-compliance audit of the Library Commission. This listing serves as a reference to the background of the recommendations and to the agency's written response.

Recommendation #1

We recommend the library account for federal subgrant activity in accordance with state law and state accounting policy. 7

Agency Response: Concur. See page 24.

Recommendation #2

We recommend the library record operating plans and any subsequent amendments on the accounting records as required by the appropriations act. 8

Agency Response: Concur. See page 24.

Introduction

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (library) for the two fiscal years ended June 30, 1989. The objectives of the audit were to:

- 1) Make recommendations for improvement in the management and internal controls of the library.
- 2) Determine if the library complied with applicable laws and regulations.
- 3) Determine if the library's financial schedules present fairly the results of operations and changes in fund balance for the two fiscal years ended June 30, 1989.
- 4) Determine implementation status of prior audit recommendations.

This report contains two recommendations to the library. These recommendations address areas where the library can improve management, internal controls, and compliance with laws and regulations. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing these recommendations. Other concerns deemed not to have a significant effect on the successful operations of the library programs are not specifically included in the report, but have been discussed with management.

Background

The library is the focal point for the development and improvement of library service in Montana. It provides general library services to Montana state government. The library also has statutory responsibility for the Natural Resource Information System. The library operates under policies established by the Montana State Library Commission. The commission was created by law in 1929, which is currently codified in Title 22, chapter 1, MCA. The commission consists of seven members as follows: five persons appointed by the Governor; the state Superintendent of Public Instruction or his/her designee; and a librarian appointed by the Commissioner of Higher Education from the Montana University System.

Introduction

The 1987 Legislature provided for two major divisions of the Montana State Library. It appropriated funds in two programs: 1) the Library Services Program; and 2) the Natural Resource Information System Program. The State Library divides its library programs into the following functional areas:

Information Resources provides reference information services, lending of materials, and interlibrary loan services either directly to users or through academic or public libraries. It also provides centralized library material acquisition, cataloging and technical processing, and operates the state's documents depository center. Responsibilities include servicing the information needs of state government.

Library Development provides assistance to Montana libraries to promote the most efficient delivery of library services to Montana's citizens. Assistance includes budget preparation, library laws, personnel issues, continuing education, collection management, library technology, and other forms of assistance. It is involved in planning for improvement of library services in the state. Library Development coordinates the library federation system and administers state and federal grants to local libraries.

Division for the Blind and Physically Handicapped is Montana's public library for the blind, visually impaired and physically disabled who are unable to read standard print. The library loans books and magazines in a variety of formats to eligible individuals and institutions. The library maintains and distributes the special playback equipment and accessories required to utilize the program. Volunteer recording programs for Montana materials are housed at the Montana State Library and the Montana State Prison.

State Institution Library Service provides consulting services and support for libraries in state institutions either directly or through contracts with public libraries.

Administration provides central management, federal program administration, centralized fiscal and accounting activities and program-wide services for the state library.

Introduction

Montana Natural Resource Information System (NRIS) was established by the 1983 Legislature. The 1985 Legislature transferred responsibility for the program to the Library Commission. Nine agencies are named by statute to sit on an advisory committee that directs the development of the system, the purpose of which is to make sources of data and information on Montana's natural resources easily and readily accessible. NRIS operates a clearinghouse and referral service to link users with the best sources of information, and helps coordinate among agencies and organizations that collect, manage, or use the same types of natural resource information to prevent duplication of effort and promote information sharing. NRIS has four main components:

Montana Natural Heritage Program maintains a computer-assisted inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species and biological communities. The Natural Heritage Program is operated through a contract with The Nature Conservancy, which operates similar heritage programs in all 50 states and several foreign countries.

Montana Water Information System is the starting point for locating water resources information in Montana, such as data on surface water, groundwater, water quality, riparian areas, water rights, and climate data.

Montana Geographic Information System (GIS) provides technical assistance for statewide GIS projects and to agencies developing in-house GIS capability. NRIS inventories data available for GIS applications and coordinates GIS data standards and sharing throughout the state. The principal project is to provide GIS services to the Department of Health and Environmental Sciences in support of Clark Fork Superfund Cleanup activities.

Montana Natural Resource Index is a geographical and subject area indexing system for existing data sources (including both published and unpublished sources).

Library operations are financed from General Fund appropriations, federal assistance pursuant to the Library Services and Construction Act, and a portion of the state's Coal Severance Tax. The Natural Resource Information System is funded by

Introduction

grant revenues received through the Montana Departments of Fish, Wildlife and Parks and State Lands, a superfund grant administered through the Department of Health and Environmental Sciences, the Resource Indemnity Trust Grant program of the Department of Natural Resources and Conservation, and private sources.

The library is currently authorized 31.72 full-time equivalent (FTE) employees. The State Librarian is assisted by 21.5 FTE in providing library services, 6.22 FTE who operate the Natural Resource Information System, and 3.00 administrative staff FTE who provide support for both programs.

The library experienced significant turnover during the audit period. Three individuals held the State Librarian's position. One individual's term was on an interim basis only. Two individuals held the accountant's position with the first individual leaving approximately a year after being hired. This turnover contributed to incomplete documentation as to decisions made and subsequently to the issues discussed in this report.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit of the library resulted in three recommendations. The library fully implemented all the recommendations.

Findings and Recommendations

Federal Grant Activity Classification

During fiscal years 1987-88 and 1988-89, the library recorded activity for the federal subgrants listed below in the State Special Revenue Fund and recorded the related revenue as "Grants, Contracts, Donations and Abandonments." State accounting policy requires the recording of federal subgrant activity in a Federal Special Revenue Fund and the related revenue as "Federal" revenue. State law also requires the recording of federal subgrant activity in the Federal Special Revenue Fund.

Table 1

Federal Subgrant Activity
For Fiscal Years 1987-88 and 1988-89

| <u>Grant and Grant Source</u> | <u>Recorded Revenue Amount</u> | | <u>Recorded Expenditure Amount</u> | |
|--|--------------------------------|------------------|------------------------------------|------------------|
| | <u>FY88</u> | <u>FY89</u> | <u>FY88</u> | <u>FY89</u> |
| 1. Geographical Information System (MT Dept. of Health & Environmental Sciences - Superfund, CFDA #66.802) | \$110,674 | \$200,825 | \$ 90,574 | \$218,601 |
| 2. Surface Mining (MT Dept. of State Lands - U.S. Office of Surface Mining, CFDA #15.250) | 15,000 | 15,000 | 24,238 | 15,000 |
| 3. MT Rivers Study (MT Dept. of Fish Wildlife and Parks - Bonneville Power Administration, CFDA #81.999) | 8,122 | 11,725 | 8,122 | 15,074 |
| Total | <u>\$133,796</u> | <u>\$227,550</u> | <u>\$122,934</u> | <u>\$248,675</u> |

In addition to the classification problems, library personnel did not analyze recorded revenues and expenditures during the fiscal year-end cut-off periods to determine whether revenue should be accrued or deferred to match expenditures as required by state accounting policies for federal assistance programs.

Findings and Recommendations

These accounting procedures resulted in understated revenues and expenditures in the Federal Special Revenue Fund and overstated revenues and expenditures in the State Special Revenue Fund on the Statewide Budgeting and Accounting System (SBAS). The library overstated total revenues in Table 1 for the first grant by \$2,324 and understated total revenues in Table 1 for the second and third grants by \$9,238 and \$3,349, respectively.

Evidence in the library's files indicated that library personnel contacted the Department of Administration's Accounting Division in March 1989 to determine whether to account for these federal subgrants as federal or state activity. Library personnel had recognized an inconsistent treatment related to their federal subgrants. Some were accounted for in the federal Special Revenue Fund while others, as discussed above, were not. Accounting Division personnel indicated they were researching this issue further and told the library to make no changes until the research was complete. The library should account for federal subgrants in accordance with state law and state accounting policy.

Recommendation #1

We recommend the library account for federal subgrant activity in accordance with state law and state accounting policy.

Operating Budgets

According to House Bill 2, Laws of 1987, "expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority." For executive branch agencies, the Office of Budget and Program Planning is the approving authority. House Bill 2 defines substantial compliance as no expenditure category in an

Findings and Recommendations

approved budget being overspent by more than 5 percent. House Bill 2 also states each operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers, and local assistance. The state agency is to record this operating budget and any approved changes on SBAS.

The recorded operating budget at fiscal year-end 1987-88 did not allocate \$229,916 to the grants expenditure category in the State Library Services Program. This caused the grants category in this program to be overspent by 30 percent. The program in total, was not overspent. Library personnel stated they were not able to determine why the former accountant did not allocate the budget in accordance with House Bill 2.

The second instance occurred in fiscal year 1988-89. The library obtained a budget amendment which was properly allocated to the debt service category in the Natural Resources Information System Program. Personnel subsequently realized the other debt service payments had been allocated to the operating expenses category. Due to an oversight on their part, this error was not corrected. As a result, the library overspent the debt service category in this program by \$20,600 or 44 percent. The program, in total, was not overspent.

Recommendation #2

We recommend the library record operating plans and any subsequent amendments on the accounting records as required by the appropriations act.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

The opinion on the Schedule of Budgeted Revenue and Transfers In -- Estimate and Actual for the two fiscal years ended June 30, 1989, means the reader of the financial schedules should be cautious when using this financial information. This schedule is misstated because the library recorded federal revenue of \$133,796 in fiscal year 1987-88 and \$227,500 in fiscal year 1988-89 as "Grants, Contracts, Donations, and Abandonments" instead of the "Federal" revenue classification.

The opinion on the Schedule of Changes in Fund Balances and the Schedules of Budgeted Program Expenditures by Object and Fund -- Budget and Actual for the two fiscal years ending June 30, 1989, means the reader of these financial schedules may rely on the fairness of the information presented.

STATE OF MONTANA

Office of the Legislative Auditor



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HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Library Commission for the two fiscal years ended June 30, 1988 and 1989, as shown on pages 13 through 19. The information contained in these schedules is the responsibility of the Library Commission's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

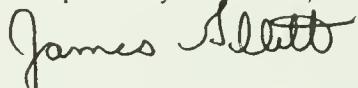
As described in Note 1, these financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

During fiscal years 1987-88 and 1988-89, the Library Commission recorded its federal subgrants revenue in the "Grants, Contracts, Donations and Abandonments" revenue class. State accounting policy requires the recording of federal subgrant revenues in the "Federal" revenue class. This practice understated "Federal" revenues and overstated "Grants, Contracts, Donations and Abandonments" revenue in the Special Revenue Fund on the Schedule of Budgeted Revenue and Transfers In -- Estimate and Actual by \$133,796 in fiscal year 1987-88 and \$227,550 in fiscal year 1988-89.

In our opinion, except for the effect of the matter discussed in paragraph four, the Schedule of Budgeted Revenue and Transfers In -- Estimate and Actual presents fairly, in all material respects, the results of operations of the Library Commission for the two fiscal years ending June 30, 1989, in conformity with the basis of accounting described in Note 1.

In our opinion, the Schedule of Changes in Fund Balances, and the Schedules of Budgeted Program Expenditures by Object and Fund -- Budget and Actual, present fairly, in all material respects, the results of operations of the Library Commission for the two fiscal years ending June 30, 1989, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

December 22, 1989

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

| | General Fund | Special Revenue Funds |
|---------------------------------------|------------------|-----------------------------|
| FUND BALANCE: July 1, 1988 | \$ <u>-0-</u> | \$ <u>22,441</u> |
| ADDITIONS: | | |
| <u>Fiscal Year 1987-88</u> | | |
| Support From State of Montana | 539,346 | |
| Budgeted Revenue & Transfers In | | 933,151 |
| Cash Transfers In | | 321,626 |
| Prior Year Expenditure Adjustments | 1,868 | 8,676 |
| <u>Fiscal Year 1988-89</u> | | |
| Support From State of Montana | 516,525 | |
| Budgeted Revenue & Transfers In | 3,571 | 1,233,533 |
| Cash Transfers In | | 222,549 |
| Prior Year Revenue Adjustments | 3,306 | 3,306 |
| Prior Year Expenditure Adjustments | <u>363</u> | |
| Total Additions | <u>1,064,979</u> | <u>2,722,841</u> |
| REDUCTIONS | | |
| <u>Fiscal Year 1987-88</u> | | |
| Budgeted Expenditures & Transfers Out | 541,214 | 1,228,583 |
| <u>Fiscal Year 1988-89</u> | | |
| Budgeted Expenditures & Transfers Out | 523,765 | 1,471,431 |
| Prior Year Expenditures | | 4,032 |
| Prior Year Expenditure Adjustments | | <u>182</u> |
| Total Reductions | <u>1,064,979</u> | <u>2,704,228</u> |
| FUND BALANCE: June 30, 1989 | \$ <u>-0-</u> | \$ <u>41,054</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

LIBRARY COMMISSION
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN
ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

| | Charges For Services | Grants, Contracts, Donations & Abandonments | Federal | Total |
|--------------------------------------|----------------------------|--|--------------------|--------------------|
| <u>Fiscal Year 1987-88</u> | | | | |
| SPECIAL REVENUE FUND | | | | |
| Estimated Revenue | \$ 3,000 | \$ 647,561 | \$ 726,051 | \$ 1,376,612 |
| Actual Revenue | <u>705</u> | <u>343,082</u> | <u>589,364</u> | <u>933,151</u> |
| Collections Over (Under) Estimate | <u>(2,295)</u> | <u>\$(304,479)</u> | <u>\$(136,687)</u> | <u>\$(443,461)</u> |
| <u>Fiscal Year 1988-89</u> | | | | |
| GENERAL FUND | | | | |
| Estimated Revenue | \$ 3,571 | | | \$ 3,571 |
| Actual Revenue | <u>3,571</u> | | | <u>3,571</u> |
| Collections Over (Under) Estimate | <u>-0-</u> | | | <u>-0-</u> |
| SPECIAL REVENUE FUND | | | | |
| Estimated Revenue | \$ 3,000 | \$ 546,706 | \$ 930,882 | \$ 1,480,588 |
| Actual Revenue | <u>983</u> | <u>514,880</u> | <u>717,670</u> | <u>1,233,533</u> |
| Collections Over (Under) Estimate | <u>(2,017)</u> | <u>\$(31,826)</u> | <u>\$(213,212)</u> | <u>\$(247,055)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

LIBRARY COMMISSION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

| | <u>Library Commission</u> | <u>Natural Resources/Heritage</u> | <u>Total</u> |
|--|-------------------------------|---------------------------------------|---------------------|
| PERSONAL SERVICES | | | |
| Salaries | \$ 484,568 | \$ 126,236 | \$ 610,804 |
| Other Compensation | 1,900 | | 1,900 |
| Employee Benefits | <u>105,845</u> | <u>27,881</u> | <u>133,726</u> |
| Total | <u>592,313</u> | <u>154,117</u> | <u>746,430</u> |
| OPERATING EXPENSES | | | |
| Contracted Services | 88,585 | 165,166 | 253,751 |
| Supplies & Materials | 16,189 | 6,134 | 22,323 |
| Communications | 33,161 | 10,656 | 43,817 |
| Travel | 35,936 | 16,193 | 52,129 |
| Rent | 110,648 | 4,083 | 114,731 |
| Repair & Maintenance | 9,857 | 37,032 | 46,889 |
| Other Expenses | <u>14,851</u> | <u>4,220</u> | <u>19,071</u> |
| Total | <u>309,227</u> | <u>243,484</u> | <u>552,711</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | |
| Equipment | 106,675 | 36,711 | 143,386 |
| Intangible Assets | <u>562</u> | <u>14,771</u> | <u>15,333</u> |
| Total | <u>107,237</u> | <u>51,482</u> | <u>158,719</u> |
| GRANTS | | | |
| From State Sources | 176,695 | | 176,695 |
| From Federal Sources | <u>298,840</u> | | <u>298,840</u> |
| Total | <u>475,535</u> | | <u>475,535</u> |
| DEBT SERVICE | | | |
| Leases | | 61,801 | 61,801 |
| Total | | <u>61,801</u> | <u>61,801</u> |
| TOTAL PROGRAM EXPENDITURES | <u>\$ 1,484,312</u> | <u>\$ 510,884</u> | <u>\$ 1,995,196</u> |
| GENERAL FUND | | | |
| Budgeted | \$ 537,888 | | \$ 537,888 |
| Actual | <u>523,765</u> | | <u>523,765</u> |
| Unspent Budget Authority | <u>\$ 14,123</u> | | <u>\$ 14,123</u> |
| SPECIAL REVENUE FUND | | | |
| Budgeted | \$ 1,190,504 | \$ 613,742 | \$ 1,804,246 |
| Actual | <u>960,547</u> | <u>510,884</u> | <u>1,471,431</u> |
| Unspent Budget Authority | <u>\$ 229,957</u> | <u>\$ 102,858</u> | <u>\$ 332,815</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

LIBRARY COMMISSION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

| | <u>Library Commission</u> | <u>Natural Resources/ Heritage</u> | <u>Total</u> |
|--|-------------------------------|--|---------------------------|
| PERSONAL SERVICES | | | |
| Salaries | \$ 487,818 | \$ 85,332 | \$ 573,150 |
| Other Compensation | 1,850 | 1,850 | 1,850 |
| Employee Benefits | <u>105,491</u> | <u>18,303</u> | <u>123,794</u> |
| Total | <u>595,159</u> | <u>103,635</u> | <u>698,794</u> |
| OPERATING EXPENSES | | | |
| Contracted Services | 104,181 | 131,043 | 235,224 |
| Supplies & Materials | 10,272 | 4,696 | 14,968 |
| Communications | 31,382 | 8,418 | 39,800 |
| Travel | 34,716 | 9,397 | 44,113 |
| Rent | 119,379 | 8,712 | 128,091 |
| Repair & Maintenance | 9,930 | 6,393 | 16,323 |
| Other Expenses | <u>7,590</u> | <u>8,972</u> | <u>16,562</u> |
| Total | <u>317,450</u> | <u>177,631</u> | <u>495,081</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | |
| Equipment | 106,282 | 22,827 | 129,109 |
| Intangible Assets | <u>2,219</u> | <u>2,014</u> | <u>4,233</u> |
| Total | <u>108,501</u> | <u>24,841</u> | <u>133,342</u> |
| GRANTS | | | |
| From State Sources | 229,915 | | 229,915 |
| From Federal Sources | <u>212,665</u> | | <u>212,665</u> |
| Total | <u>442,580</u> | | <u>442,580</u> |
| TOTAL PROGRAM EXPENDITURES | <u>\$1,463,690</u> | <u>\$306,107</u> | <u>\$1,769,797</u> |
| GENERAL FUND | | | |
| Budgeted | \$ 548,652 | | \$ 548,652 |
| Actual | <u>541,214</u> | | <u>541,214</u> |
| Unspent Budget Authority | <u>\$ 7,438</u> | | <u>\$ 7,438</u> |
| SPECIAL REVENUE FUND | | | |
| Budgeted | \$1,061,477 | \$677,824 | \$1,739,301 |
| Actual | <u>922,476</u> | <u>306,107</u> | <u>1,228,583</u> |
| Unspent Budget Authority | <u>\$ 139,001</u> | <u>\$371,717</u> | <u>\$ 510,718</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

LIBRARY COMMISSION
NOTES TO FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Library Commission uses the modified accrual basis of accounting for the General Fund and the Special Revenue Fund. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues.

Under the modified accrual basis of accounting, expenditures are recorded for valid obligations. A valid obligation exists when the related liability is incurred. State accounting policy also addresses the following items in its definition of valid obligations.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The library uses the following fund types:

General - to account for all financial resources except those required to be accounted for in another fund. Legislative appropriations are required for spending from this fund.

Special Revenue - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required for spending from this fund type.

Accounts in this fund type include federal assistance pursuant to the Library Services and Construction Act; a portion of the state's Coal Severance Tax; grant revenues received through the Montana Departments of Fish, Wildlife and Parks, State Lands, Health and Environmental Sciences, and Natural Resources and Conservation; and private sources.

2. ANNUAL AND SICK LEAVE

Employees of the Library Commission accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Library Commission. Expenditures for termination pay currently are absorbed in the annual operational costs of the library. At June 30, 1989, the library had a liability of \$41,414 for annual and sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The Library Commission's contribution to the plan was \$36,186 in fiscal year 1987-88 and \$37,581 in fiscal year 1988-89.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. PROGRAM CONSOLIDATION

The 1987 Legislature provided for two major divisions of the Library Commission. It appropriated funds in two programs: 1) the Library Services Program; and 2) the Natural Resource Information System Program. The Library Services Program consolidated what had formerly been six separately budgeted programs in library services.

6. CASH TRANSFERS

The Library Commission receives some of its funding from the coal tax. This money is collected by the Department of Revenue and is recorded as revenue by that agency. The state accounting system uses a cash transfer to avoid

duplicate recording of the same revenue. The cash collected and recorded as revenue by the Department of Revenue is automatically transferred at fiscal year-end to the Library Commission's records.

Agency Response

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Montana Legislative Auditor

1515 E. 6TH AVENUE



MONTANA STATE LIBRARY

STAN STEPHENS, GOVERNOR

STATE OF MONTANA

(406) 444-3115

HELENA, MONTANA 59620

TO: Wayne Kedish, Audit Manager
Office of the Legislative Auditor

FROM: Richard T. Miller, Jr. *(Signature)*
State Librarian

SUBJECT: Financial-Compliance Audit

DATE: February 28, 1990

We have reviewed the final report on the audit of the State Library Commission.

Attached is our agency response to your recommendations. If you have any questions, please feel free to call Jacki Wrigg or me.

Thank you for the courteous way in which your staff handled this audit.

RTM:JW

RECOMMENDATION #1

1500-7-1000

Concur. The Montana State Library is investigating the possibility of implementing this change beginning in FY91. Due to the fact that the funds were appropriated by the Legislature as state special it is not known at this time if this will be possible. Our budget request for FY92-93 will classify these funds as federal. As these funds were not considered federal in the past, it was not necessary to determine whether revenue should be accrued or deferred at FYE. This will also be implemented with the change in classification.

RECOMMENDATION #2

Concur. This recording error has been noted and procedures implemented to prevent a recurrence.

